



Finance Committee Town of Natick, Massachusetts 01760

March 20, 2008

To The Citizens of Natick:

This report contains the Town of Natick Finance Committee report and recommendation regarding the pending Override Question # 2, in accordance with the Finance Committee's responsibilities as outlined in Section IV of this report.

The Finance Committee report is made after conducting a duly noticed public hearing and open meetings of the Finance Committee on i) the proposed FY 2009 budget, both with and without proposed cuts, and ii) the pending override question itself. The Committee took into account comments and data gathered from town department heads, the town administration, town boards, commissions and committees, and the public at-large. The Finance Committee made its report only after affording ample time for input and discussion during full committee hearings held on January 22nd, 24th, 29th and 31st, February 4th, 7th, 14th, 21st, 26th, and 28th, March 4th, 6th, 11th, 18th and 20th.

In making this report, the Finance Committee recognizes the right of the voters of Natick to decide the Prop 2 ½ ballot question.

The Finance Committee also recognizes that individual citizens do not have the authority and or easy access to budget information from various Town departments. Accordingly, this Finance Committee Report is designed to provide information and analysis to aid the citizens of Natick in making an informed decision pro or con with regard to Question # 2.

The Finance Committee's detailed review of the budget is in accordance with Article 5 of the Charter and Chapter 23 of the By Laws and in recognition of Chapter 39 Section 16 of the Massachusetts General Laws.

This is a report to you, the citizens, about an important question involving your Town.

In reporting to the Town, the Finance Committee decided to consider the following question:

Is the override needed in order to fund the existing services of the Town of Natick for the Fiscal Year 2009, which begins on July 1, 2008 ?

On March 18, 2008, The Finance Committee, by a vote of 10-3-0 (with two members not being present), voted to report to and advise the citizens of the Town of Natick that:

The proposed override of \$ 3,900,000 is needed in order to fund the existing services of the Town of Natick for the Fiscal Year 2009, which begins on July 1, 2008.

This report contains the following sections:

- I. Executive Summary
- II. Excerpts from Previous Finance Committee Reports to Town Meeting
- III. Natick's Budget Structure, Status and History
- IV. Background
- V. Summary of Proposition 2 and ½
- VI. Roles of Various Town Government Bodies
- VII. Comparative, Statistical and Other Information

The Finance Committee would like to express its thanks and appreciation for the hard work and dedication of the Town Administrator, Deputy Town Administrator, Finance Director, Town Department Heads and Officials as well as members of many Town Boards and Committees. The Finance Committee would also like to thank the citizens of Natick for their cooperation, participation and consideration of complex fiscal issues and concerns during the FY 2009 Budget hearings. We would especially like to recognize the hard work and contributions of our recording secretary, Joyce Tower.

Respectfully Submitted,



Richard P. Jennett, Chairman
on behalf of the Natick Finance Committee

Committee Members:

Richard P. Jennett, Chairman	John Horrigan
Paul Griesmer, Vice Chairman	Patrick Haswell **
John Culkin, Secretary	Peter Robbins
Bruce Wright	Richard Sullivan
Cathi Collins	Richard Sidney
Christine Weithman	Tony Lista
Jonathan Freedman	William Idzal **
James Everett	

* Not present for the final vote.

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I. Executive Summary

The following is a summary of findings:

1. The \$3.9 Million override is required in order to fund the current level of services in the town for FY 2009.
2. Since 2003, the Town has been utilizing both Free Cash and Reserve monies to help fund its operating budget.. This has been necessary due to the reduction of local receipt revenues, especially State Aid.
3. The Town Administration and Finance Committee have been warning Town Meeting since 2003 that in order to balance the Town budget and to continue to fund Town services in the future, either an operational override or cuts in services and personnel or some combination of these will most likely be required for the FY08 budget.
4. In 2007 in preparing the FY08 budget, upon recommendation of the Finance Committee, the Town revised its policy as to the amount of reserve funds it should retain. The purpose of this was to delay the need for an override until this year (FY09) in order to put into place, a long range financial plan and to educate the citizens as to the benefits and consequences of voting either for or against an override.
5. It is the opinion of the Finance Committee that the Town should not use any additional monies than already planned from non-recurring and/or targeted funds such as Stabilization Fund in order to fund this year's operational budget. Currently, \$ 600,000 in Stabilization Fund monies are already proposed to help fund FY 09 and FY 10 budgets. The balance of Stabilization is needed for the potential emergencies and uncertainties such as the boilers at Natick High School, the town owned Charles River dam and Pleasant St. bridge as well as the pending Police Union lawsuit.
6. In 2002 and 2003, the Town experienced a 22% cut in net state aid. Current net state aid is \$ 9,177,918 for fiscal 2008 and is estimated to increase to \$ 9,496,104 for next year. In nominal (non inflation adjusted) dollars, these amounts are below the 2001-2002 level of \$ 9,540,984.
7. Increases in state aid since then have not kept pace with inflation. In inflation adjusted terms, the value of state aid for the current year is \$ 2.4 to \$ 2.5 million below 2001 - 2002 levels and \$ 4.5 million below 1989 levels. Analysis of state aid history since 1989 suggests that increases to net state aid in an amount needed to solve the Towns budget needs are unlikely.

8. The town continues to locate and develop operational efficiencies in order to bring the best value to the citizens for their tax dollars. Recent examples include the combination of the Town's Highway and Sanitation departments to gain staff efficiencies, the renegotiation of the tipping fees contract for trash disposal in combination with the "Pay as You Throw" program as well as the conversion of certain retiree health care costs to Medicare. These efforts will be continued.
9. There is no current proposed efficiency that would sufficiently fund the current level of services to the Town without the need for an override. Any further efficiency that might occur in future years would be subject to a complete analysis and verification. Any potential future additional efficiency that may occur would tend to help make the current override last longer.
10. The additional property tax revenue from the expansion of the Natick Collection has significantly decreased, but not eliminated, the amount needed for this override. In addition, the Town has received approximately \$11 Million in mitigation funds from the Natick Collection for infrastructure and open space needs. By law, these mitigation monies cannot be collected nor used for operational needs. Further, by law, additional monies could not have been obtained for the Town's operating budget.
11. Unlike the Natick Mall of the 1990's which generated approximately \$2.6 million then (worth approximately \$3.7 million today), the new Mall is estimated to provide additional new revenues of \$1.75 million annually by the end of FY 2009. This is approximately \$1,000,000 starting in FY 2008 and approximately \$750,000 additional in FY 2009. These revenues have already been projected in the budget.
12. The Override is necessary to reduce the structural reliance of the operating budget on non recurring revenues and to also provide funding for many important Capital expenditures, which have been largely unfunded during the last five years.
13. The Town of Natick is well run financially. Among indicators of this are the recent raising of the Town's bond rating from AA2 to AAA and the fact that the town has one of the lowest average tax bills in the area (See Exhibit in Section VII). Please note that this chart is intended to compare Natick's taxes to its neighbors and is not meant to imply whether Natick citizens should or can afford to pay more taxes.
14. In the event that an override is not approved, the Town Administrator and the School Superintendent have proposed various budget cuts. The representative Town Meeting, which meets in April, will determine which budgets are cut and to what extent. Town Meeting is not bound by the recommendations of the Administration, the Selectmen or Finance Committee. Any specific school cuts would be determined by the School Committee which is not bound by the recommendation of the Superintendent or Town Meeting.

15. The override question is a choice between authorizing the Town to collect more tax revenue or allowing Town Meeting and the School Committee to determine the budget cuts.
16. The proposed override is a onetime increase of the “Base Recurring Tax Levy” by the amount of \$3.9 million. The base tax levy, including the proposed override if approved by the voters, is subject to maximum future annual increases of 2.5% only, without further approval of the voters.
17. The proposed override includes \$2.8 million for operating costs of existing services and \$400,000 to replace antiquated school classroom computers and technology (including related infrastructure) that is approximately 8 years old and \$100,000 for classroom supplies. The balance is being used to fund debt service on Capital projects (including roof replacements at Johnson and Memorial School) and to stabilize the operating budget through at least FY 2010.
18. The override that has been proposed by the Town Administrator and the School Superintendent has been extensively reviewed by the Finance Committee and has been approved by the Board of Selectmen and the School Committee.
19. The Finance Committee has repeatedly warned of the approaching need for an override or the need for service cuts.
To quote our report to the Spring 2007 Town Meeting:
“The Finance Committee wishes to make it clear that the financial situation, that Natick is now in, is not the result of poor planning or financial mismanagement. As stated in our recommendations two years ago, “the multi-year financial plan” (initiated in 2003) was **designed to avoid layoffs, service cuts and/or operating overrides through the end of fiscal year 2007** in the face of severe state aid cutbacks and limited increases in revenue from new growth.”
The need for an override has been extended through the end of fiscal year 2008.
20. Over the last several years, the Finance Committee and the Town Administrator have been first cautioning and then warning Town Meeting members that continuation of this plan could not continue indefinitely.
Certain points from the records of the Finance Committee over the past four years and comments also made in the previous reports to Town Meeting are summarized below.

II. Excerpts from Previous Finance Committee Reports to Natick Town Meeting

The following are excerpted from the record of the Natick Finance Committee's reports to Natick Town Meeting and the Town Administrator's similar reports. This information is summarized to provide the context and history leading up to the override question.

FY05 Budget

*(After restoration of State Aid to previous year's level), "However, even if this revenue source is funded at the Fiscal Year 2004's level, **the town will still need to use monies from Free Cash Reserves, the Stabilization Account, and the Overlay Surplus Account.** Use of these funds based on previous fiscal years' uses, is greatly increased due to the at best level funding of State Aid and increases to operational costs, including salary and wage increases." (Finance Committee – Spring TM 2004).*

FY06 Budget

*"There is little doubt that the needs that are being requested to be addressed are legitimate. Can any one who visits the current High School deny the need for significant change? Can any one who visits the Senior Center deny the need to address shortcomings of the building? Can any one deny they are concerned that our elders may face a tax burden that threatens their ability to live in the Town that they have called home for so many years? ... **It is my belief that we will not be able to address all of these needs within the confines of our current tax rate.**" (Town Administrator's Budget message – April 4, 2005).*

FY07 Budget

*"As Town Meeting members will recall the multi-year financial plan (initiated in 2003) was **designed to avoid layoffs, service cuts and/or operating overrides through the end of fiscal year 2007** in the face of severe state aid cutbacks and limited*

increases in revenue from new growth. The non-recurring reserves used in this multi-year plan continue to diminish reliance on \$5.2 million of free cash and other surplus funds to balance the town wide budget will require either restoration of state aid amounts, new revenue sources and/or service reductions in service levels in the various departments in subsequent years.”(Finance Committee – Spring 2006 – pg A5).

“ As we move forward with the Fiscal Year 2007 budget deliberations it will become clear that we have constructed a very lean budget that at best maintains our current level of services. It will also become apparent that we can not continue to offer the level of services we do within the existing revenue and expenditure framework. We must utilize the next year to make decisions regarding the level of services this government will offer the citizens of Natick. (Town Administrator’s Budget Message, January 9, 2006 for the FY 07 fiscal year, last page.)

FY08 Budget

“In reporting to Town Meeting on the omnibus budget for Fiscal Year 2008 (FY08), the Finance Committee reviewed the context of the Town’s overall financial picture. The FY08 budget continued to use non-recurring sources of revenue to fund recurring operating functions and departments on a town wide basis.”

“Over the last several years, the Finance Committee and the Town Administrator have been first cautioning and then warning Town Meeting members that continuation of this practice could not continue indefinitely.”

“The recommended FY 08 Budget is a reprieve, not a long term solution, for the Town that buys the critical time needed to plan for FY 09 on an integrated basis. The Finance Committee believes a sense of urgency should exist with regard to the preparation of that plan. Although information may change (such as actual Mall assessments, other new growth, or significant increases in State aid or the authorization of sufficient, new local revenue source options by the Legislature), Town Meeting members should not expect a similar reprieve next year. The Finance Committee believes that the multi year plan from FY 2003 that used reserves and other nonrecurring funds to avoid service cuts, cushion reductions in State Aid and to avoid overrides is coming to an end.” (Finance Committee Message April 8, 2007)(Emphasis in the original.)

III. Natick's Budget Structure, Status and History

Structure

The Town's budget, like all governmental entities, consists of a series of funds. The principal funds are 1) the general fund, 2) Water and Sewer Enterprise fund and 3) the Golf Course Enterprise funds. There are also a series of smaller and minor revolving funds for school lunches, certain school bus fee funds, certain school athletic fee funds, and fee based park and recreation funds.

General Fund

The general fund is the primary budgetary fund of the Town and includes the budgets all the town departments except water and sewer and golf. The general fund budgets include the public schools, the police and fire departments, the DPW, the libraries, the town administration, the town comptroller, the town clerk, the council on aging/ senior center, parks and recreation, employee health insurance benefits, pension costs for all employees (except teachers), property and liability insurance for the Town, and debt service on the Town's bonds. DPW operations include curbside trash and recycling pickup, highways and roads maintenance and repair, town building maintenance, vehicle maintenance, and maintenance of public park areas and fields.

The general fund is the focus of the override question. The other fund budgets of the Town are not.

Water and Sewer Enterprise Fund

The water and sewer enterprise fund involves the potable water supply and sanitary sewer system in the town of Natick. The storm drainage and storm sewer system which deals with water run off from rain and snow melt is not part of this fund but rather is part of the general fund. The water and sewer enterprise funds raise money from user rates to cover the direct

and indirect costs of the water and sewer operation. These costs include the MWRA sewer assessment on the Town of Natick and the costs of water and sewer debt service.

If the water and sewer fund collects more money than it spends in a given year, it creates retained earnings with the water and sewer fund. Retained earnings, if any, can only be used for water and sewer. If the water and sewer fund collects less than its costs, retained earnings are depleted. The Board of Selectmen and Town Meeting can also use retained earnings to reduce rates in future years or fund water and sewer capital projects. The water and sewer fund also pays an expense to the general fund for certain overhead expenses which the general fund pays. These overhead payments are permitted by law and have been the focus of much attention, including an outside audit, in the town in the past four years. These indirect cost allocations are subject to reasonable accounting based estimates and measurements. Other than these indirect cost allocations, there is no budget relationship between the water and sewer fund and the general fund.

Golf Course Enterprise Fund

The golf course operates on land over the land fill capping of the former town dump and on abutting land leased from a private owner in the abutting town of Sherborn. The golf course charges greens fees as its source of operating revenue which is in turn dependent on the level of utilization and to some extent the weather. The golf course fund pays operating expenses for salaries and supplies and has certain annual debt service and land lease costs.

The golf course does not generate enough greens fees and play to pay all of its costs and has, since inception, required a subsidy from the general fund in order to meet debt service and lease costs. This reality is contrary to the feasibility study prepared in 1996. This feasibility study was commissioned by the then town administration and was the basis of the decision, in 1996, to proceed with the golf course.

When initial operations were insufficient to meet debt service and lease payments, several analyses have been performed about whether to keep or close the golf course. These analyses indicated that even with closure the town would remain obligated on the bonds and for the debt service and 55 year land lease. The analyses also indicated that the town would incur costs to close the course and could be obligated to restore the leased land to its original condition. The “keep/ close” analyses have indicated that it is slightly more beneficial to keep the course open than to close it. The golf course now makes a slight contribution toward its lease and debt service costs. The general fund unfortunately pays the bulk (approximately \$ 350,000) of those annual debt service and lease costs. However, closure of the golf course would not solve the town’s budget problem.

General Fund Revenue Sources

The general fund has several principal sources of revenue these include real and personal property taxes, state aid and local receipts.

Property taxes are subject to annual assessment and to Prop 2 and ½ that is discussed above. Property taxes account for approximately \$ 69 million of the total general fund revenue of approximately \$100 million. Property taxes are subject to abatement, exemption and appeal. The overlay account is used as deduct from tax levy to pay these abatements, exemptions and appeals. Unused overlay, if any is released back for expenditure purposes after all associated abatements , exemptions and tax court appeals for a given tax year have been decided and processed.

The town receives aid from the state for a variety of purposes and is also assessed costs by the state for a variety of purposes. The number which really matters is the net of all state aid after assessments. In 2002-2003, Natick like many towns experienced a significant state aid cut of approximately \$ 2,100,000. Increases in net state aid since that time have not kept pace with inflation and in fact have not even recovered to the 2002 dollar level. A multi year analysis of state aid suggests that a sizeable recovery in net state aid is not likely. For the current fiscal year, net state aid is \$9,177,718. Net State aid for next fiscal year, FY 2009, which begins on July 1, 2008, is estimated to be \$9,496,104 for an increase of 3.4%.

Local Receipts

In addition to property tax revenue, the town receives revenue from several local receipts sources. These include motor vehicle excise tax, hotel excise tax, pay as you throw trash fees, ambulance fees, fines, licenses and permits, rental of property, and police details. Most of these receipts depend upon and vary with local economic activity. For budgeting purposes, however, the Department of Revenue scrutinizes assumptions the Town makes about increases in these categories. The Town cannot and should not balance its budget by inflating local receipts estimates. Total local receipts are estimated to be approximately \$ 12,000,000 for FY 2009. The Finance Committee believes the administration has a reasonable basis for this estimate and that the amount should not be higher. The Finance Committee has some concern, given economic conditions, about the estimate and notes that shortfalls could impact future free cash levels with or without an override.

Other Non Recurring Sources of Funds (Reserves)

The general fund also has, from time to time, certain available fund balances which include

- Free Cash
- Overlay Surplus
- Excess Overlay Reserve
- Stabilization Fund

Free cash is the amount each year by which cash revenues exceed accrued expenses for the year (consistent with the modified accrual basis of accounting used for governmental entities) plus any unused free cash from the previous year. Free cash recurs as a line item but not as an amount. Free cash can fluctuate significantly and can even be negative. Any negative free

cash must be funded as a first expenditure priority in the next year. The free cash balance cannot be used until it is certified by the state.

Traditionally free cash was used for capital expenditures. However, beginning in 2002, free cash began to be used for operating purposes while capital spending was curtailed as part of a three year plan to delay an override after state aid cuts. Since 2002, free cash has been part of the annual budget calculation for operating purposes and Town meeting has been careful to preserve free cash for use in the next years budget. In September 2007, the Financial Planning Committee of the Board of Selectmen, School Committee and the Finance Committee focused on free cash number and reported to Fall 2007 Town Meeting through the Town Administrator that the free cash number would not be enough to avoid an override for FY 2009. The Town Administrators budget plan uses \$3,352,122 (of the current free cash balance of \$3,371, 263) for the FY 2009 budget. This includes \$ 302,122 to subsidize school bus transportation and \$50,000 for non union personnel wage adjustments. Approximately \$ 93, 400 of the current balance is needed to fund operations for the remainder of the current year. Consistent with last year, a small amount of free cash (\$ 345,741) would be preserved for use in the FY 2010 budget or for emergency purposes at the Fall 2008 Town meeting.

Overlay surplus also varies and is the amount of the overlay account that has been declared as surplus and released by the assessors. Excess overlay reserve is the amount of the overlay account that is not needed and has not yet been declared by the assessors as surplus. In March 2007 (last year) the Finance committee requested that these two overlay accounts be drained in order to delay an override until now. The Board of assessors honored this request and drained these accounts last year so that these funds could be used to fund operations for the current fiscal year we are in.

The stabilization fund consists of monies that can only be spent upon a 2/3 authorization of Town Meeting. Unless 2/3 of Town Meeting votes, these monies cannot be used. Several years ago a plan was developed to draw down stabilization funds to pay for the debt service of certain capital projects in the Town. These funds are also the source of funds for potential emergency needs in the Town such as the boilers at Natick High School, the Charles River dam and bridge and other parts of the town's aging infrastructure.

General Fund Expenses

The general funds expenses consist of labor, supplies, energy costs, health insurance benefits, non teacher pension benefits, property and casualty insurance, and debt service. Debt service includes the cost of the Wilson School which was funded using a debt exclusion override. Operating costs include the costs of education and Special Education as mandated by Federal and State government.

The operating costs include fixed vs. variable, controllable vs. non controllable, contractual and mandatory vs. discretionary expenses. Certain costs are notable.

Significant cost increases have been experienced in the last several years in employee health insurance which has increased from \$ 6,394, 649 in FY 2003 to an estimated \$ 11,598,780 in FY 2009. These costs have grown at a rate far above inflation for all cities and towns and private businesses. Had these costs grown at only 3.5 % annually, they would be \$

7,860,656 for next year or \$ 3,738,124 lower than budgeted. These costs are driven by union contract provisions set in the mid 1990's and are contractual obligations.

Energy costs for the Town have increased from \$ 856,521 in FY 2003 to an estimated \$1,456,184 for FY 2009. Had such costs increased at 3.5% annually, they would be \$1,052,883 for next year or \$ 403,300 lower. Similar increases have occurred in the School budget for school related energy costs. Mandatory special education costs have increased significantly over the past several years.

Natick's aging infrastructure includes a number of buildings which need attention including

- Johnson (1948)
- Kennedy School (1964)
- High School (1952)
- Memorial School (1968)
- District Fire Stations

The proposed override includes funds to pay for binds to replace the roofs at Kennedy and Memorial. The proposed override might allow the Town to address other capital needs, depending on future free cash levels, such as the Towns roads and vehicle fleet.

IV. Background

Statutory, Charter and By Law Basis

Under Article 5, Fiscal Procedures of the Town of Natick Charter, the Finance Committee conducts a detailed review of the proposed budget that is prepared by the Town Administrator. This proposed budget consists of estimated revenue, available fund balances, if any, operating expenses and capital expenditures of the Town for the ensuing fiscal year.

The Charter requires the Finance Committee to consider the individual budgets and line items in the proposed budget in detail in public sessions and to report its recommendations on the proposed budget to Town Meeting. Article 5 also gives the Finance Committee the power to require the Town and School administrations, including any individual town department or officer, to provide the Finance Committee with detailed information and answers to questions necessary for the Finance Committee to make a recommendation on the proposed budget.

The Town of Natick By Laws in Article 23 Section 4 Report, Recommendations also provide the following:

"The Finance Committee shall consider all matters of business included within the articles of any warrant for a Town Meeting, and shall, after due consideration, report thereon, in print, its recommendation as to each article. The Finance Committee shall distribute its said report to each of the Town Meeting Members at least ten (10) days in advance of a Town Meeting, except where compliance with this provision would defeat the purpose of a Special Town Meeting. The said recommendations shall be those of a majority of the appointed Committee

at the time of the vote, but this shall not be construed to prevent recommendations by a minority as such. The Committee Report shall also state the total amount of the appropriations recommended by them on the entire Warrant and the approximate tax rate based on such recommendations. Said report for the Annual Town Meeting shall also contain a statement of the doings of the Committee during the year, with any such recommendations or suggestions as it may deem advisable on any matters pertaining to the welfare of the Town.”

The proposed budget is the central focus of Article 2 of the Spring 2008 Town Meeting Warrant. The pending override question is a crucial matter of business with regard to that Article.

Chapter 39 Section 16 of the Massachusetts General Laws (MGL) also governs Finance Committees and says:

“Appropriation, advisory or finance committees; appointment; tenure; powers and duties

Every town ...shall by by-law provide for the election or the appointment and duties of appropriation, advisory or finance committees, who shall consider any or all municipal questions for the purpose of making reports or recommendations to the town”.

Pursuant to these requirements, the Finance Committee is making this report and recommendation to the Town after due consideration of the proposed budget and the override question.

Objective

In making this report, the Finance Committee recognizes the right of the voters of Natick to decide the Prop 2 ½ ballot question.

The Finance Committee also recognizes that individual citizens do not have the authority and or easy access to budget information from various Town departments. Accordingly, this Finance Committee report is designed to provide information and analysis to aid the citizens of Natick in making an informed decision pro or con with regard to Question # 2. This report has been provided in accordance with Article 5 of the Charter and Chapter 23 of the By Laws.

The Finance Committee has decided to provide a report and recommendation on the following question:

Is the override needed in order to fund the existing services of the Town of Natick for the Fiscal Year 2009, which begins on July 1, 2008 ?

The Finance Committee respects that the individual decisions of the voters may represent value judgments about whether an increase in property taxes is worth preserving services. The Finance Committee leaves that value judgment to the voters. The Finance Committee makes

no judgment about whether any one can afford or want the override as contrasted to any service cuts or fee increases.

The Finance Committee recognizes that some citizens might prefer to pay more to maintain existing services and that other citizens might not prefer to pay more to maintain existing services but rather have the representative Town Meeting which meets in April determine which of the budgets and related services would be cut.

This is a report to you, the citizens, about an important question involving your Town.

V. Summary of Proposition 2 and ½

How Prop 2 and ½ works

Proposition 2 and ½ limits the total property taxes in any city or Town to the lesser of 2.5% of the value of real and personal property (the Levy Ceiling) or an increase of 2.5 % over the property taxes collected in the previous fiscal year (the Levy Limit). In the latter, the Levy Limit of the previous year is increased by 2.5 % for the subsequent year. The value of any new construction as of January 1st of any year is added to the levy in the following fiscal year and then becomes part of the levy base. The Levy Ceiling is reached when a city or Town's tax rate is 25.00 per thousand of assessed value. Natick's current tax rate of 10.02 per thousand is well below this level.

Proposition 2 and ½ does not limit the amount of taxes assessed on individual property. Taxes on an individual property are determined as a result of the annual assessment process as required by the State Constitution. Depending on the result of individual assessments, individual taxpayers may see their taxes change by more or less than 2.5%. By design, Proposition 2 and ½ only limits the town wide total that is collected.

Ballot Question Process for Proposition 2 1/2

Unlike the process at Town Meeting, Prop 2 1/2 ballot questions are not amendable or subject to modification after they have been called. Once called, there is no procedure for the citizens to increase or decrease the number or change the allocation of the additional funds for or away from any particular use or department. The Proposition 2 and ½ override process allows voters to decide whether to authorize the Town to collect more in property taxes for the question as called. It does not allow the voters to determine any specific cuts.

In the representative Town Meeting, amendments can be made, debated and voted.

Types of Override Questions

There are three types of override questions specifically Operating Overrides, Debt Exclusions and Capital Exclusions. By way of examples, the Wilson School in 2000 was a debt exclusion override while the second ambulance and paramedic trained fire department in 2000 was an operating override. Operating overrides are permanent increases in the Levy Limit in an amount approved by the voters. They are typically used when a city or town has a structural budget problem or seeks to add a new service. Operating overrides cannot raise the Levy Ceiling.

Operating overrides do not require that the additional funds are raised through taxation. Town Meeting is not required to spend the additional funds. The Selectmen are also not required to set the tax rate such that the additional funds are always raised from taxation.(In fact, in 1996, the Selectmen deliberately set the tax rate so as to not raise the annual 2.5 % increase that can occur without an override. In that year, the Town's tax levy did not increase except for a very small amount of new growth.) However, under the circumstances, it is likely that the override

amount, if approved by the voters, will be raised and expended by the Town on a recurring basis.

Debt exclusions are authorizations of the voters for the town to raise taxes to pay interest and repay principal on funds borrowed for a specific purpose (often for a building). When debt is repaid the taxes are no longer collected for the debt exclusion. Capital exclusions are authorizations by the voters to collect additional taxes in one year only to pay for a capital project. Debt and capital exclusions are not subject to the Levy Ceiling or Levy Limit of 2.5%. However, state law provides a limit for each Town's outstanding debt based a percentage of each city or town's assessed value.

Exemptions, Abatements and Circuit Breakers

The MGL provides certain types of exemptions and abatements from portions of local property taxes for qualified elderly, disabled persons and veterans. The state income tax code also provides certain credits (i.e. rebate payments) to qualifying elderly if their property taxes exceed a portion of their income. Subject to qualification, these credits are available even if the elderly taxpayer has no taxable income. Currently, a bill is pending on Beacon Hill that would exempt seniors below certain income levels from taxes assessed as a result of Prop 2 and ½.

Information on these exemptions and abatements are available at the assessor's office. Information on the state income tax credits are available through the Council on Aging (COA). The Town also provides a senior tax work off program for a portion of property taxes for qualifying seniors. Information on this program is available from the Assessor's office and the COA. Interested or concerned citizens should contact these town agencies for details or access the link on the Town's website or in Section VII of this report.

VI. Roles of Various Town Government Bodies

State law and the Town's Charter provide specific separation and division the powers and duties of the Town's government with regard to Prop 2 and ½ override questions.

Voters

The voters have the sole power to decide whether to approve or not to approve ballot questions.

Selectmen

The Selectmen have the sole power to decide whether and when to call a Prop 2 and ½ ballot question. The Selectmen also have the sole power to determine the form of the question such as whether it will be one overall question or specific amounts for specific departments (i.e. an itemized question). Any amounts voted on an itemized question, if authorized, are binding on Town Meeting for one year.

A minimum of three of five selectmen must vote to call an operating override ballot question. A minimum of four of five selectmen must vote to call a debt exclusion ballot question such as for a middle school or high school.

The Selectmen can also make proposals about what cuts might be made if an override is not approved by the voters.

Town Administrator

Under the Town Charter, the Town administrator prepares a proposed budget for the entire town that reflects a complete financial plan for the entire Town including the budget as requested by the School Committee. The Town Administrator is not obligated to propose the budget the School Committee wants but is required to propose a total amount for the Schools. The Town administrator makes proposals about what to cut if an override is not approved by the voters.

Finance Committee

The Finance Committee holds public hearings on and conducts a detailed review of the proposed budget. The Finance Committee provides a report and recommendation to the representative Town Meeting and the Town. The Finance Committee can make recommendations about what to cut if an override is not approved by the voters.

Town Meeting

Town Meeting determines the budgets of each town agency and department subject to staying within the limits of Proposition 2 and ½. The Town Charter provides that the representative Town Meeting "shall meet, deliberate, act and vote in the exercise of the legislative powers of the town" and shall determine "matters involving the expenditure and commitment of town funds, including but not limited to the adoption of an annual operating budget for all town agencies".

Town Meeting alone determines which departments and which town programs are cut if an operational override is not passed. Town Meeting determines the overall budget for the Natick

Public Schools and determines the extent to which the Natick school budget is cut subject only to certain mandatory spending for debt service, and minimum for schools, and keeping departments for town clerk, assessors, veterans officers, comptroller, town administrator, public health and having a police chief.

The representative Town Meeting is not bound by any proposals or recommendations from the Selectmen, the Town administrator, or the Finance Committee.

School Committee – Natick Public Schools

Once the overall school budget is determined by Town Meeting, the Natick School Committee alone determines which programs within the Natick School system will be funded and which will be cut. This is known as the bottom line authority of the School Committee. The School superintendent makes recommendations to the school committee. However, the School committee is not bound by these recommendations. The Town Meeting may make non binding advisory votes on specific school budget line items. However, the school committee is not bound by these non binding votes.

School Committee – Middlesex Regional Vocational School District (Keefe Tech)

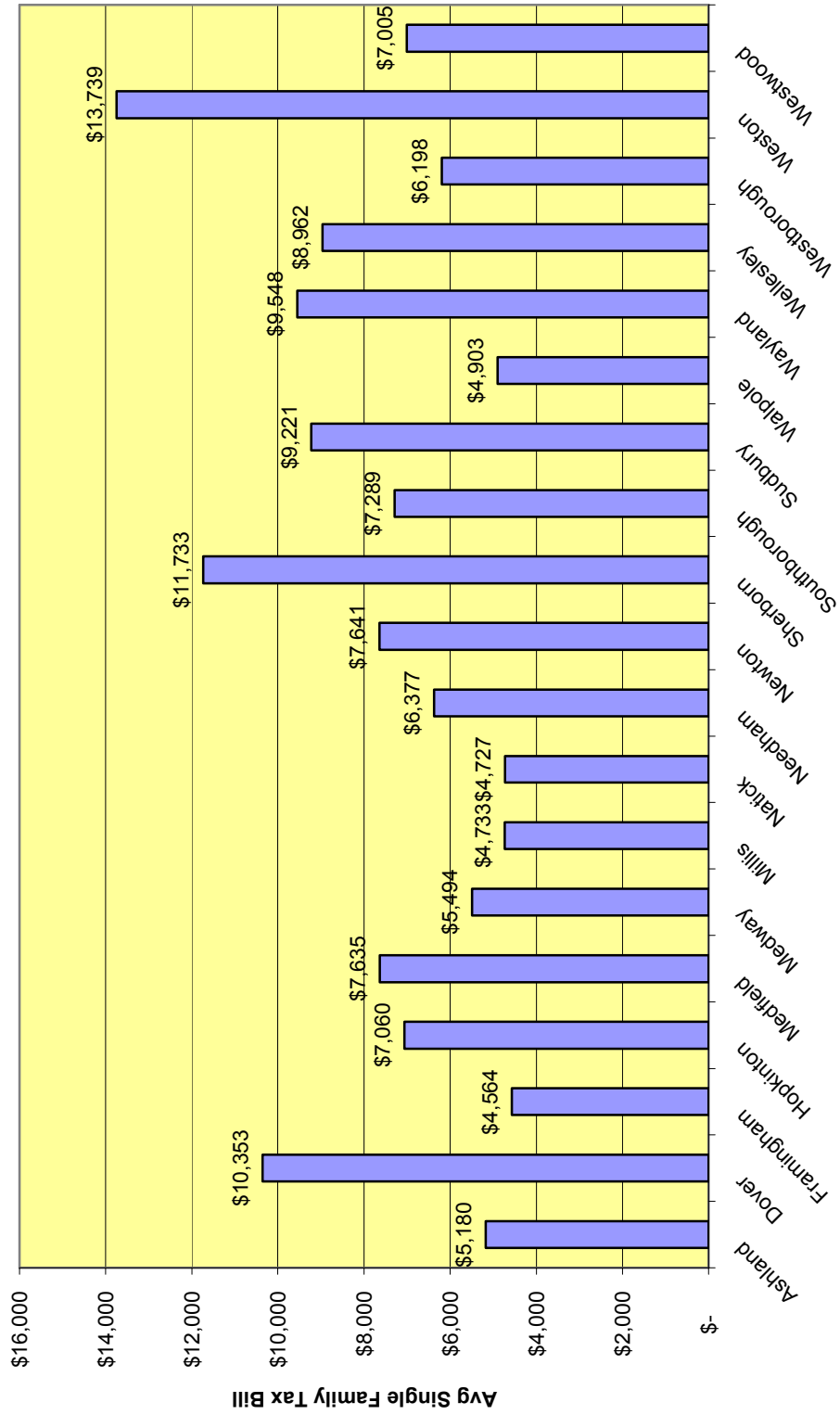
This is a regionalized vocational school system that involves Natick, Framingham, Ashland, Holliston, and Hopkinton. This school system is completely separate from the Natick Public School system and has its own separate school committee. Natick is required to contribute funding to Keefe Tech each year based on an assessment from Keefe Tech. This assessment is part of Natick's budget and must be paid regardless of the outcome of an override question in Natick. Financial decisions regarding Keefe Tech are essentially controlled by Framingham as a result of Framingham's size compared with other Towns.

VII. Comparative, Statistical and Other Information

The Finance Committee has received and offers the following information for the consideration of the citizens and voters of Natick. These charts are presented in this section or available in links to other parts of the Town's website. This information includes:

- Residential Property Tax Bills Compared to Other Communities – from the Finance Committee Report to April 2007 Town Meeting
- State Aid History in Nominal and Inflation adjusted Dollars – From the Town Administration
- Natick Public School Spending Compared to Other Towns (Showing Amounts Unadjusted and Adjusted for Allocation of Retired Employee Health Insurance) – from the School Superintendent. (Note: According to the Superintendent, some towns allocate this retiree health care cost to current education spending and others do not.)
- Proposed Townside Cuts without an Override - From the Town Administrator (http://natickma.gov/Public_Documents/NatickMA_Admin/FY09Override/SUMMARY%20OF%20DEPARTMENTAL%20NARRATIVES4.pdf)
- Proposed School Side Cuts without an Override - From the Superintendent of Schools (http://natickma.gov/Public_Documents/NatickMA_Admin/FY09Override/SchoolCuts.pdf)
- Information on Financial Assistance and Exemptions (http://natickma.gov/Public_Documents/NatickMA_Admin/FY09Override/FinancialAssistanceSummary.pdf)
- Town of Natick Proposed Budget (with and without cuts) – (http://natickma.gov/Public_Documents/NatickMA_BudgetBook/2009BudgetBook/index)

FY2007 Average Single Family Tax Bills
(source: Massachusetts Dept of Revenue Municipal Data Base/Local Aid Section)



Natick State Aid Deficit Analysis - Nominal and Inflation Adjusted Dollars

A	B	C	D	E	F	G	H	I
Fiscal Year beginning 7/01	Fiscal Year	Actual Net State Aid Nominal Dollars (Note 1)	% Change	Net State Aid (Note 1)	CPI (Note 2)	Pro Forma Net State Aid Adjusted for CPI (Note 3)	Net Annual State Aid Deficit (Note 4)	Net Annual State Aid Deficit in FY 2008 Dollars (Note 5)
1988	1989	\$ 7,491,594	0.00%	\$ 7,491,594	124.5	\$ 7,491,594	\$ -	\$ -
1989	1990	\$ 6,065,018	-19.04%	\$ 6,065,018	131.3	\$ 7,900,773	\$ (1,835,755)	\$ (3,123,790)
1990	1991	\$ 5,672,178	-6.48%	\$ 5,672,178	139.7	\$ 8,406,230	\$ (2,734,052)	\$ (4,372,625)
1991	1992	\$ 4,563,513	-19.55%	\$ 4,563,513	144.6	\$ 8,701,080	\$ (4,137,567)	\$ (6,393,056)
1992	1993	\$ 4,842,859	6.12%	\$ 4,842,859	148.9	\$ 8,959,826	\$ (4,116,967)	\$ (6,177,524)
1993	1994	\$ 5,005,622	3.36%	\$ 5,005,622	152.7	\$ 9,188,485	\$ (4,182,863)	\$ (6,120,211)
1994	1995	\$ 5,156,529	3.01%	\$ 5,156,529	156.3	\$ 9,405,110	\$ (4,248,581)	\$ (6,073,187)
1995	1996	\$ 5,625,976	9.10%	\$ 5,625,976	160.5	\$ 9,657,838	\$ (4,031,862)	\$ (5,612,578)
1996	1997	\$ 6,065,202	7.81%	\$ 6,065,202	165.7	\$ 9,970,740	\$ (3,905,538)	\$ (5,266,112)
1997	1998	\$ 6,562,293	8.20%	\$ 6,562,293	168.4	\$ 10,133,208	\$ (3,570,915)	\$ (4,737,718)
1998	1999	\$ 7,262,348	10.67%	\$ 7,262,348	171.2	\$ 10,301,694	\$ (3,039,346)	\$ (3,966,506)
1999	2000	\$ 8,030,860	10.58%	\$ 8,030,860	175.5	\$ 10,560,440	\$ (2,529,580)	\$ (3,220,350)
2000	2001	\$ 9,005,240	12.13%	\$ 9,005,240	181.3	\$ 10,909,446	\$ (1,904,206)	\$ (2,346,647)
2001	2002	\$ 9,540,984	5.95%	\$ 9,540,984	184.2	\$ 11,083,949	\$ (1,542,965)	\$ (1,871,536)
2002	2003	\$ 9,380,986	-1.68%	\$ 9,380,986	189.6	\$ 11,408,885	\$ (2,027,899)	\$ (2,389,680)
2003	2004	\$ 7,480,272	-20.26%	\$ 7,480,272	194.9	\$ 11,727,805	\$ (4,247,533)	\$ (4,869,189)
2004	2005	\$ 7,561,381	1.08%	\$ 7,561,381	201.9	\$ 12,149,019	\$ (4,587,638)	\$ (5,076,736)
2005	2006	\$ 7,967,652	5.37%	\$ 7,967,652	209	\$ 12,576,250	\$ (4,608,598)	\$ (4,926,680)
2006	2007	\$ 8,770,724	10.08%	\$ 8,770,724	215.2	\$ 12,949,326	\$ (4,178,602)	\$ (4,338,309)
2007	2008	\$ 9,177,718	4.64%	\$ 9,177,718	223.4	\$ 13,444,252	\$ (4,266,534)	\$ (4,266,534)
2008	2009	\$ 9,496,104	3.47%	\$ 9,496,104	232.2372	\$ 13,974,514	\$ (4,478,410)	\$ (4,478,410)
Total		\$ 150,725,053	26.76%	\$ 150,725,053	86.54%	\$ 220,900,464	\$ (70,175,411)	\$ (89,627,379)
Average		\$ 7,177,383		\$ 6,851,139		\$ 10,519,070	\$ (3,341,686)	\$ (4,267,970)

Notes:

Note 1: From Natick Town Administrator's Net State Aid Presentation

Note 2: From US Department of Labor, CPI-U Data for Northeast Region, December Data

Note 3: Column F of the preceding year multiplied by Column E of the current year divided by Column E of the preceding year except for 1989

Inflat

Note 5: Column G multiplied by Column E for 2008 divided by Column E for the respective year except for FY 2009 which is measured in estimated FY 2009 dollars

Note 6: Numbers in italics for FY 09 assume

This assumption is used to estimate the effect of prospective inflation on FY 09.

Actual inflation for the balance of FY 08 and all of FY 09 is subject to change.

(2,935,446)

Natick State Aid Deficit Analysis - Nominal and Inflation Adjusted Dollars

A	B	C	D	E	F	G	H	I
Fiscal Year beginning 7/01	Fiscal Year	Actual Net State Aid Nominal Dollars (Note 1)	% Change	Net State Aid (Note 1)	CPI (Note 2)	Pro Forma Net State Aid Adjusted for CPI (Note 3)	Net Annual State Aid Deficit (Note 4)	Net Annual State Aid Deficit in FY 2008 Dollars (Note 5)
2001	2002	\$ 9,540,984		\$ 9,540,984	184.2	\$ 9,540,984	\$ -	\$ -
2002	2003	\$ 9,380,986	-1.68%	\$ 9,380,986	189.6	\$ 9,820,687	\$ (439,701)	\$ (518,145)
2003	2004	\$ 7,480,272	-20.26%	\$ 7,480,272	194.9	\$ 10,095,211	\$ (2,614,939)	\$ (2,997,653)
2004	2005	\$ 7,561,381	1.08%	\$ 7,561,381	201.9	\$ 10,457,789	\$ (2,896,408)	\$ (3,205,200)
2005	2006	\$ 7,967,652	5.37%	\$ 7,967,652	209	\$ 10,825,546	\$ (2,857,894)	\$ (3,055,144)
2006	2007	\$ 8,770,724	10.08%	\$ 8,770,724	215.2	\$ 11,146,687	\$ (2,375,963)	\$ (2,466,773)
2007	2008	\$ 9,177,718	4.64%	\$ 9,177,718	223.4	\$ 11,572,716	\$ (2,394,998)	\$ (2,394,998)
2008	2009	\$ 9,496,104	3.47%	\$ 9,496,104	232.2372	\$ 12,029,162	\$ (2,533,058)	\$ (2,533,058)
Total		\$ 69,375,821	-0.47%	\$ 69,375,821	26.08%	\$ 85,488,782	\$ (16,112,961)	\$ (17,170,971)
Average		\$ 8,671,978		\$ 8,671,978		\$ 10,686,098	\$ (2,612,210)	\$ (2,775,471)

Notes:

Note 1: From Natick Town Administrator's Net State Aid Presentation

Note 2: From US Department of Labor, CPI-U Data for Northeast Region, December Data

Note 3: Column F of the preceding year multiplied by Column E of the current year divided by Column E of the preceding year except for 2001

Note 4: Column E less Column G

Note 5: Column G multiplied by Column E for 2008 divided by Column E for the respective year except for FY 2009 which is measured in estimated FY 2009 dollars

Note 6: Numbers in italics for FY 09 assume 3.94% inflation for FY 09 which would be a continuation of most recent 12 months inflation through 1/31/08.

This assumption is used to estimate the effect of prospective inflation on FY 09.

Actual inflation for the balance of FY 08 and all of FY 09 is subject to change.

Note 7: Averages for Column H and I are computed for FY 04 through FY 09

Fiscal Year Ended 6/30/07
Showing Pro Forma Effect of FY 09 Cuts in 2007 Dollars

	<u>Natick</u>	<u>Frammingham</u>	<u>Chelsea</u>	<u>Boston</u>	<u>Wellesely</u>	<u>Weston</u>	<u>Wayland</u>	<u>Walpole</u>	<u>Needham</u>	<u>Newton</u>	<u>Randolph</u>	<u>Stoneham</u>	<u>Ashland</u>
Total Net School Spending Per Student - FY 07	10,062	12,138	10,014	11,554	11,514	14,543	11,587	9,323	10,877	12,572	9,073	8,716	9,546
Less:													
Retired Employee Insurance, if any Per Student	(694)	(498)	(75)	0	0	0	(177)	0	(295)	(203)	0	0	(132)
Less:													
Pro Forma Cuts in 2007 Dollars	(363)												

Comparable Net School Spending Per Student	9,006	11,640	9,939	11,554	11,514	14,543	11,410	9,323	10,582	12,369	9,073	8,716	9,414
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Natick Ahead/ (Behind)	0	(2,635)	(934)	(2,548)	(2,508)	(5,537)	(2,404)	(317)	(1,577)	(3,364)	(67)	290	(408)
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	<u>Natick</u>	<u>Frammingham</u>	<u>Chelsea</u>	<u>Boston</u>	<u>Wellesely</u>	<u>Weston</u>	<u>Wayland</u>	<u>Walpole</u>	<u>Needham</u>	<u>Newton</u>	<u>Randolph</u>	<u>Stoneham</u>	<u>Ashland</u>
Retired Employee Insurance	3,237,938	3,984,341	408,262	0	0	0	674,730	0	1,399,614	2,352,709	0	0	330,102
Divided by: Enrollment	4,668	8,005	5,465	61,796	4,578	2,279	3,804	4,752	11,612	11,612	3,646	2,804	2,496
Equals: Retired Employee Insurance Per Student	694	498	75				177	295	203	203	0	0	132
Potential School Cuts (If Override is not Approved)	1,800,000												
Divided by: Enrollment	4,668												
Potential Cuts Per Student	386												
Divided by CPI	1.063152												
Cuts in 2007 Dollars	363												

Source: DOE

Notes:

Cities and Towns made a decision , pursuant to state regulations, in 1993 as to whether or not to count retired employee insurance(health insurance) as part of current education spending in Net School Spending for compliance purposes with Ed reform minimums
Some towns chose to do this . Others did not.

CPI Data as of January			
2006	211		
2007	215.813		
2008	224.325		

2006-2008 1.063152 To estimate two years worth of inflation between 2007 and 2009